Colliers

Italy

Logistics Market Overview

Snapshot Q4 2023

Logistics in 2023

A decline in investments or a change of direction?

What was the impact of 2023, which was marked by unprecedented complexities and challenges, on one of the strongest-performing sectors in recent years? The interest rate hikes and the conflicts that broke out first in Europe and then the Middle East had — and are continuing to have — a significant impact on all asset classes, including logistics, which saw approximately 46% decline in investments compared to 2022. Yet, a closer look at statistics can help us realise that this sector proved to be robust, as well as finding positive elements and identifying new trends on the horizon. Some see a crisis in the charts. It is indeed a crisis, but not in the negative sense the term is usually understood. The original meaning of the word is 'change' — in this case, a change in operators' habits and investors' intentions.

The market's users worked actively. The take-up of logistics properties in 2023 was almost equal to that of 2022, when it amounted to 2.7 million sqm, giving industry operators a reason to remain confident. Yet, what were the effects of all this?

Rents for logistics properties grew by an average of 5-10% over the past three years, a rate that varies by geographical position and asset type: those with ESG characteristics, for which demand is particularly high, are growing faster, whereas already existing non-certified warehouses are on the decline. In recent quarters, 86% of leased properties complied with at least one ESG standard.

This phenomenon used to be merely a nice-to-have, while has now is becoming a must-have for both investors and end users.

Compared to the pandemic period, the last-mile segment has undergone a significant transformation, due in part to the entry (and exit) of ultra-fast grocery delivery operators such as Getir, Gorillas and Sezamo. Despite initial demand, this type of business did not work particularly well on the Italian market: this impacted demand for last-mile properties, leading rents to stabilise between €100 and €110 per sqm in major markets such as Milan and Rome.

At the same time, FMCG firms are adopting alternative strategies to cope with the significant increase in transport costs. Centralisation within XXL assets does not seem to be yielding the desired benefits: hence the need to diversify and have a more widespread distribution network with a greater local footprint.

What should we expect from the new year? 2024 promises to be a complex, uncertain year, influenced by hardly predictable macroeconomic variables. However, the restrictive policies implemented above all by the Federal Reserve and by the European Central Bank have stemmed the rise in inflation, keeping it at near-normal levels. Barring further political turmoil, interest rates are expected to fall gradually, thus helping to improve access to the debt market — a driving force behind real estate investments. This should also revitalise capital markets starting in the second half of 2024.

"A closer look at statistics can help us realise that this sector proved to be robust, as well as finding positive elements and identifying new trends on the horizon."

Investments
Key data
Italy

€ 638m
Investments in Q4 2023

65%
Portfolio Deals

5,5%
Prime Yield

+112% & -43%
Investment Trend YoY
(Q4 2023 on Q4 2022 vs 4 quarters yearly rolling data - 23’ on 22’)

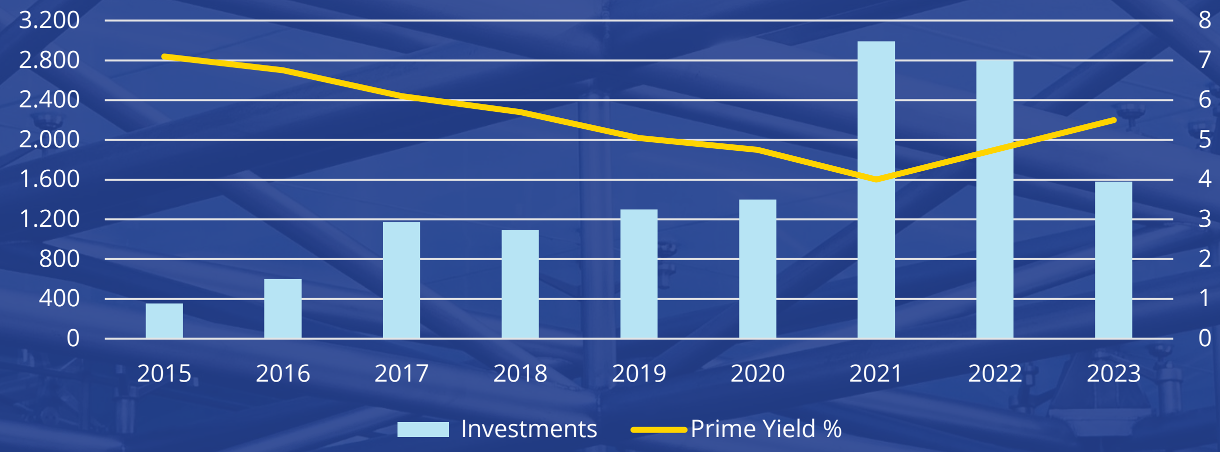
€ 1,58Bn
Cumulative Investments 2023

+75bps & +20bps
Yield Trend
(YoY & QoQ)

Investment Trends

- Despite the recent macroeconomic turmoil, 2023 ended up showing **promising results** in terms of transacted volumes (€ 1,58Bn). Q4 2023 closed at **€ 638m** showing a **robust growth** compared to Q3 2023 (+ 49%) and even a stronger result on a YoY basis (+112%).
- The recent months showed **positive metrics and guidelines** from the market and institutions regarding interest rates perspective. However, despite expecting **better financing conditions** over the second half of the year, **challenging** conditions in the **debt market** impacted significantly the 2023 final results.
- In order to comply with funds exp. returns, investors targeted **value-add or core+ opportunities** often adopting equity-based investment strategies, with deferred financing, particularly for assets exhibiting robust **rent reversion** potential and **strong covenants.**
- The **Italian prime yield** has witnessed a significant surge over the past year rising 75 bps YoY. Nevertheless, prime yields are starting to stabilize, growing only 20 bps QoQ, settling at **5,5% NIY.**
- We firmly believe that the **strong fundamentals underpinning the logistics asset class**, coupled with the consistent and **robust demand** from operators, will instil confidence on investors, enabling them to allocate their capital effectively.

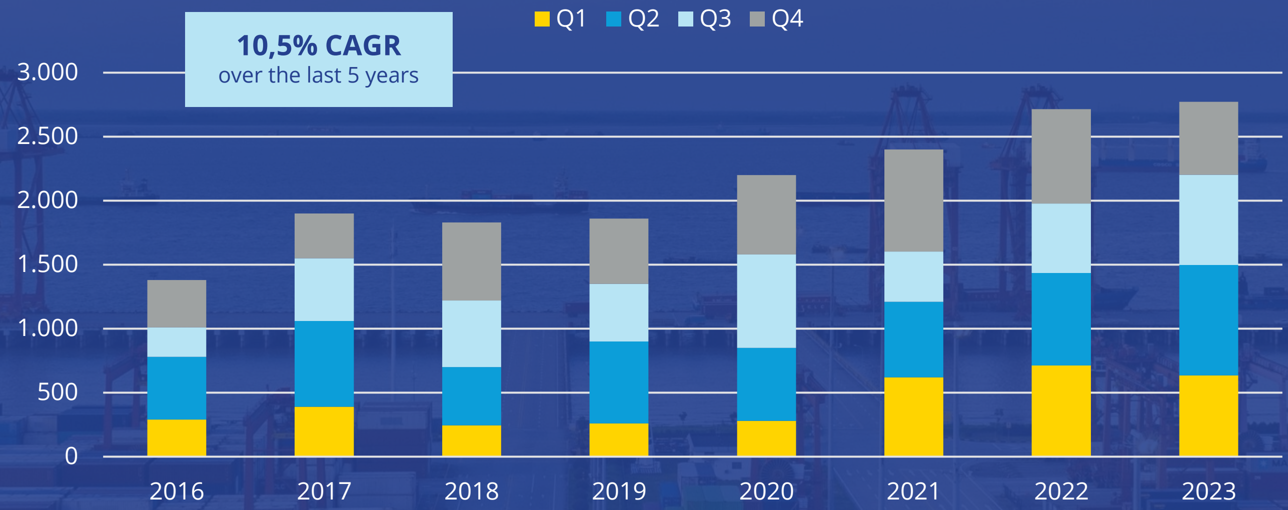
Logistics Invesments Evolution In Italy
(Million of Euros between 2015 and 2023)



Take up & Key Statistics
Italy

Take-up Trends

- The Italian logistic absorption is demonstrating to be the key driver of the asset class expansion showing a steady and **solid growth** over time (**approx. avg. 10,5% 5y CAGR).**
- In Q4 2023, a solid part of the demand for space **comes from 3PLs**, which account for about **63%** of the total market uptake. The remain part is equally divided between e-commerce, retail and manufacturers.
- We observed that even in this quarter the demand for space in terms of square meters remains stable with an **average search** of about **15.000 to 17.000 sqm.**
- Approximately **62% of the absorption** represents **existing** or **speculative assets**. The average void for existing assets is **almost zero** while for speculative projects the leases usually occur **during the construction phase or within the first 3 months after completion.** However, recent trends showed a slight increase in voids due to **longer negotiation** with clients.
- **Final clients** are looking for newly built (**Grade A**) and **ESG* compliant warehouses** which in this quarter accounted for almost the totality of the **take-up (85%)**. **ESG** is a key driver for the expansion of the asset class leading to **rising demand and especially higher rents**.



*ESG Compliant asset obtained at least the Leed Gold or Breeam Very Good certificate ** 5y CAGR is calculated considering the cumulated take up values 2023

569K sqm
Take-up Q4 2023

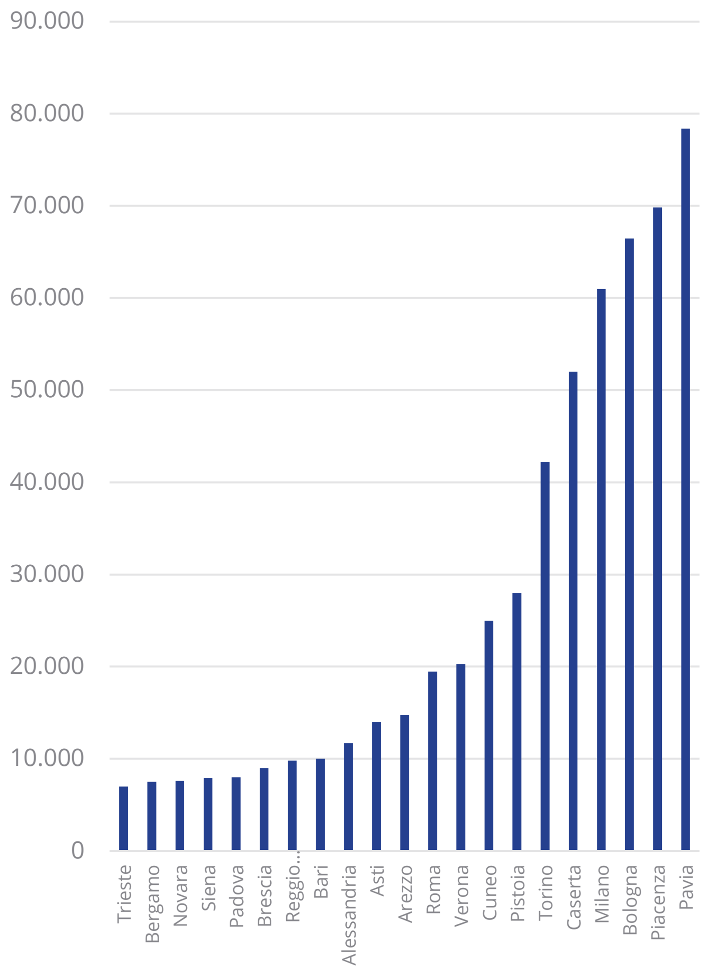
-23% & +2%
Take-up Growth YoY
(Q4 2023 on Q4 2022 vs
4 quarters yearly rolling data)

63%
3PL Absorption

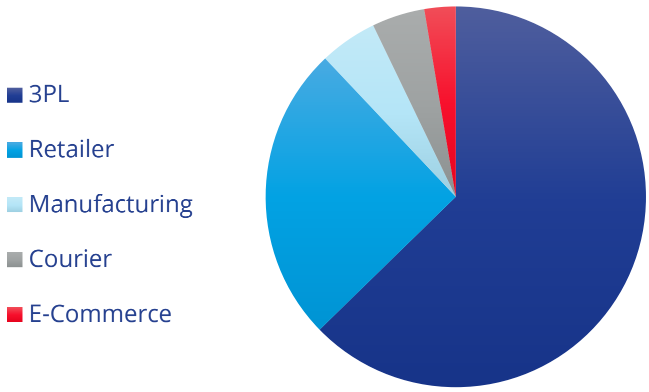
85%
Proportion of ESG compliant* assets leased

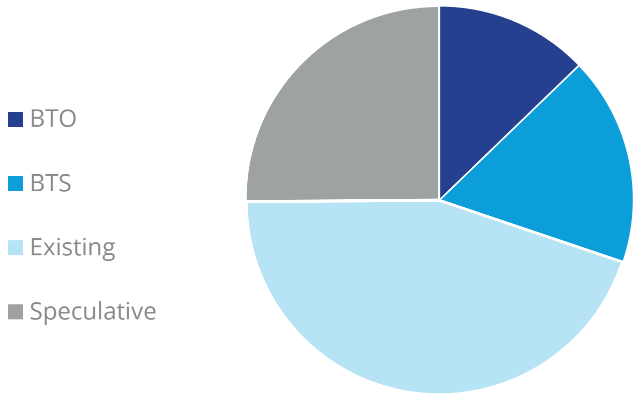
Prime Rents (€/sqm/y)	Milan	Rome	Turin	Verona	Bologna	Piacenza
Q4 2023	67	65	50	57	67	57
3y CAGR	8,4%	7,7%	6,6%	11,3%	11,3%	10,1%

Q4 2023 Take-up by Provinces (GLA-sqm)

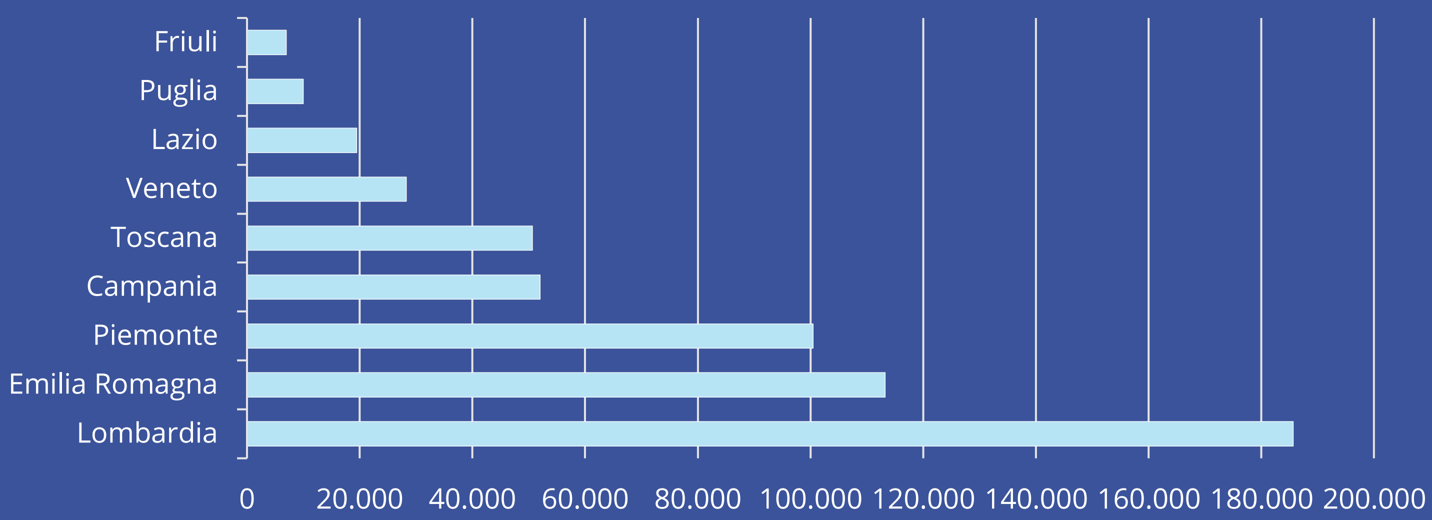


Take-up Characteristics Considering Type of Tenants, Assets Types and Drivers



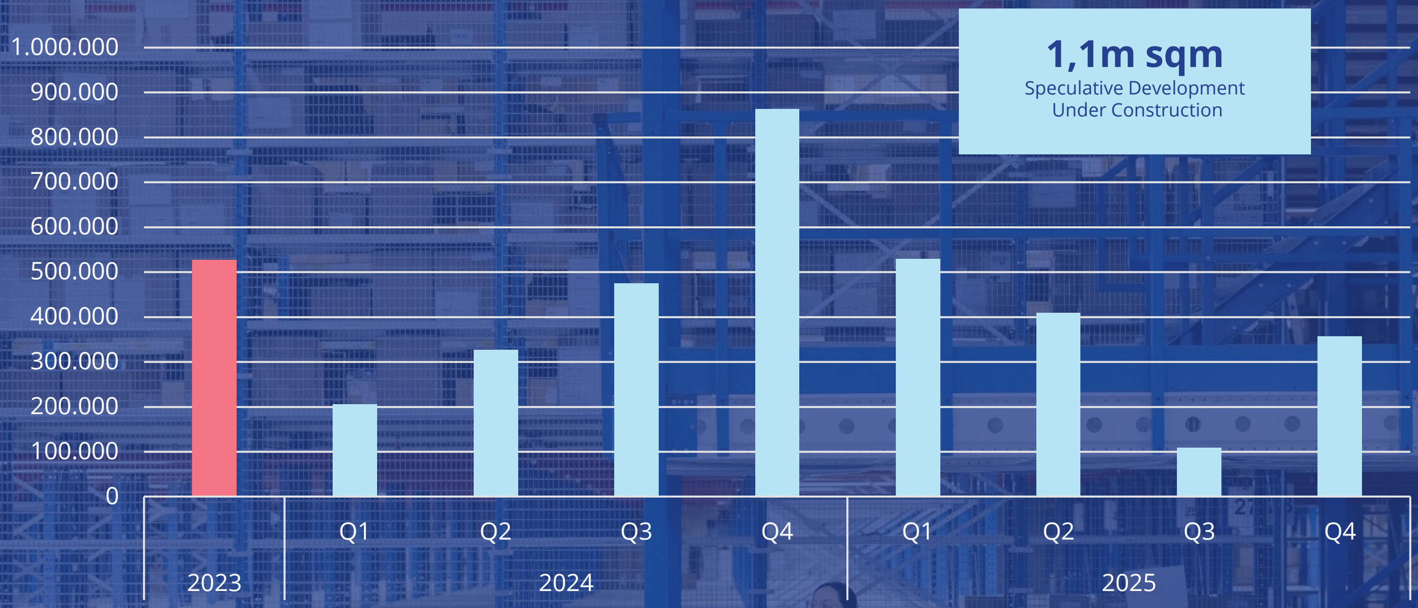


Take Up Distribution by Regions (GLA-sqm)



Vacancy & Pipeline
Italy

Planned Speculative Developments and Vacancy in the coming years (potential GLA-sqm)

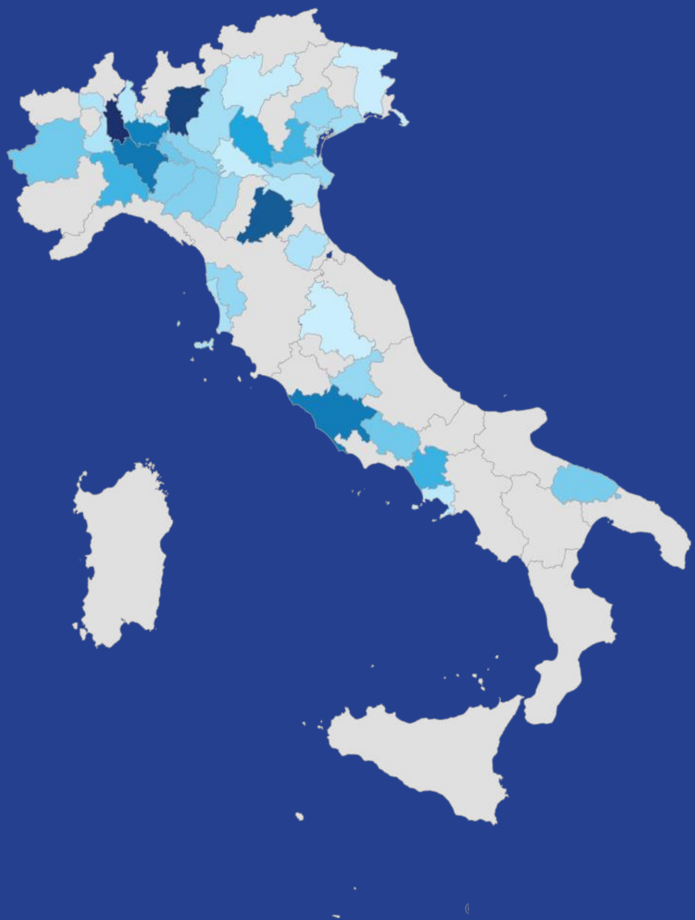


Data shows values net of current negotiations (approx. 670k sqm) that will be part of future take up at completion.

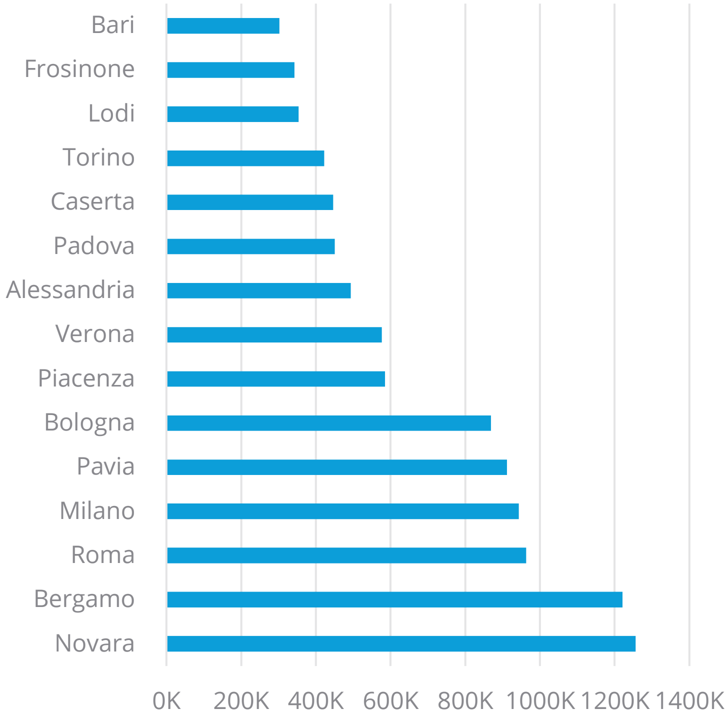
Fast Facts
on potential development

- The need to operates within **ESG** compliant assets is pushing firms to look for new sheds. Therefore, the absorption rate of new developments is showing quite impressive results with most of the projects being leased before the construction end date.
- The vacancy rate remains stable **below 1,3%** all over Italy considering few sub-markets where the vacancy rate is closer to zero.
- High costs of financing, high construction costs and difficulties in getting building permits pushed a few projects to drop or deliver with slight delays as well as to rising asking rents. **2,1m sqm will come to the market as speculative developments by Q4 2025** (currently **1,1m sqm are under construction** and **670K** sqm are **under negotiation**).
- Despite the uncertainty recorded lately, we are still seeing a **strong demand** for logistic developments that can deliver above average returns (rent reversion being a strong element).
- The Italian main ports and airports, especially if connected with the railways, are becoming even more demanded by investors**. Intermodal hubs** rise interest both from operators and investors.
- The **"reshoring**" trend is challenging global supply chains. Firms, also in Italy, start to prefer sourcing products — such as clothes and computer chips — closer to home, turning away from manufacturing powerhouses like China. Investors are looking to invest into industrial assets as a way to diversify their portfolios (at the moment mainly made by logistic assets).
- **Sale & leasebacks** are witnessing a boost. These types of transactions may offer a more attractive capital solution for companies now.

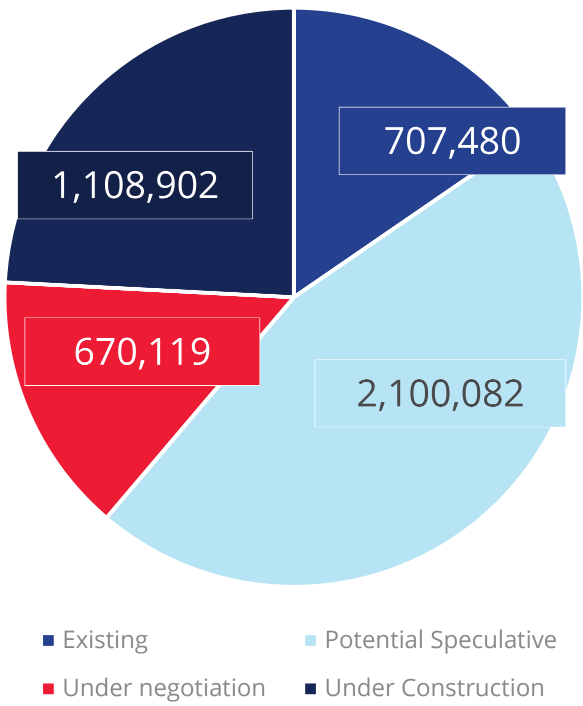
Available potential GLA (sqm) entering the Italian Logistic Market in the next 2 to 3 years. Pipeline concentration divided into the Italian different districts



Main Provinces in Terms of Sqm potentially coming to the Market
(GLA – Thousands of Sqm)



Italian Vacancy & Pipeline divided by Type
(GLA – Sqm)



Contacts

EMEA – Logistics Capital Markets

Edward Plumley
Director, EMEA Capital Markets
edward.plumley@colliers.com
+44 7595 123288

ITALY – Capital Markets

Silvio Sancilio
Head of Capital Markets
silvio.sancilio@colliers.com
+39 338 746 9372

ITALY – Logistics, Last Mile & Data Centers

Faustino Musicco
faustino.musicco@colliers.com
+39 348 460 2502

Domenico Marino
domenico.marino@colliers.com
+39 334 625 0708

Alessandro Daffrè
alessandro.daffre@colliers.com
+39 331 403 7282

Luca Invernizzi
luca.invernizzi@colliers.com
+39 337 163 3111

Matteo Ferri
matteo.ferri@colliers.com
+39 366 571 6790

Research

Simone Roberti
simone.roberti@colliers.com
+39 348 380 6762

Angelica Solfaroli
angelica.solfaroli@colliers.com
+39 338 655 5909

Offices

Milano

Corso Giacomo Matteotti, 10
20121

Roma

Via Leonida Bissolati, 76
00187

www.colliers.com

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